AMERICAN CRYSTAL SUGAR

Its Rebirth as a Cooperative

FARMER COOPERATIVE SERVICE/U.S. DEPARTMENT OF AGRICULTURE FCS INFORMATION 98

AN UNUSUAL COOPERATIVE VENTURE

This publication records the events and actions a relatively few sugar beet growers in the Red River Valley of Minnesota and North Dakota took to acquire a relatively large sugar company—American Crystal Sugar.

Recording the transformation of American Crystal into a Minnesota cooperative should be useful as a historical document for Red River growers. The story can serve as a guide for other farmers in their efforts to form new organizations, cooperative or otherwise. The experience gained in this exercise may be helpful to researchers and counselors who might have the occasion to advise and assist farmers in similar efforts.

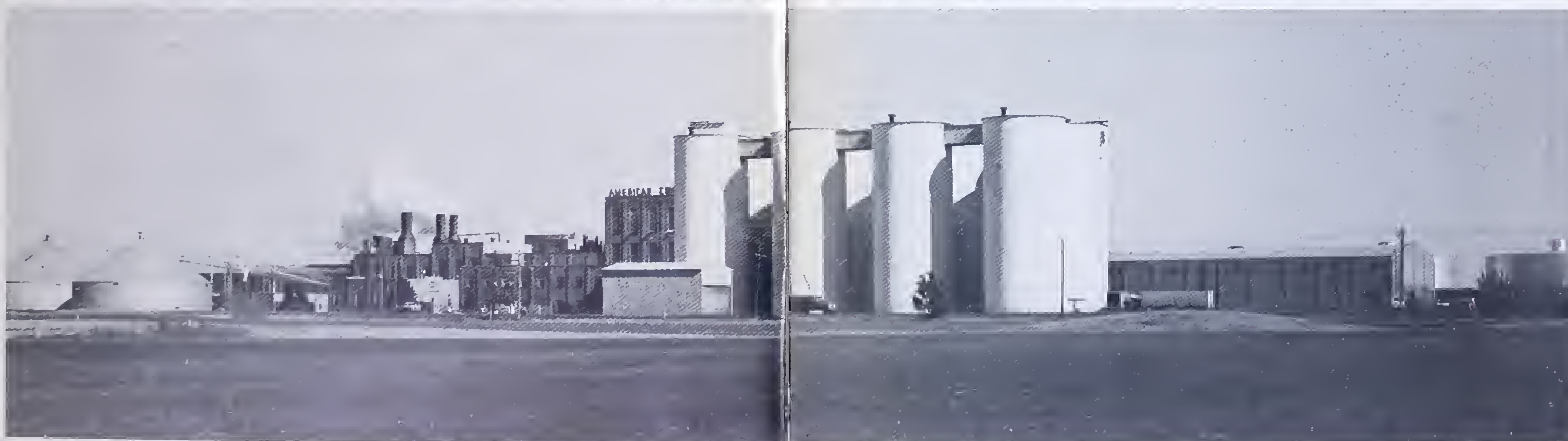
Another reason for documenting this activity is because of the complexity of the acquisition. Under conventional procedures, farmers might be able to acquire a corporation directly. In this case, because of tax and other considerations, it was necessary to form—then merge out of existence—an interim corporation and to take several other complex legal steps before completing the project.

Acknowledgment is given to the following officials who supplied basic information for this report: Aldrich C. Bloomquist, executive secretary, Red River Valley Sugar Beet Growers Association, Inc., Fargo, N.D.; William B. Dosland, attorney at law, Moorhead, Minn.; Edward N. Denn and Charles M. Levenberg, attorneys at law, Minneapolis; Leroy R. Knuths, Arthur Anderson and Company, Minneapolis; and Glade Nelson and Robert Satrom, St. Paul Bank for Cooperatives.

After American Crystal became a cooperative, corporate headquarters moved to Moorhead, Minn. This new building was completed in 1974.

Golfers playing the city's new golf course have an impressive view of the Moorhead sugar refinery. American Crystal also has factories at Crookston and East Grand Forks, Minn., and Drayton, N.D.

After American Crystal became a cooperative, corporate headquarters moved to Moorhead, Minn. This new building was completed in 1974.

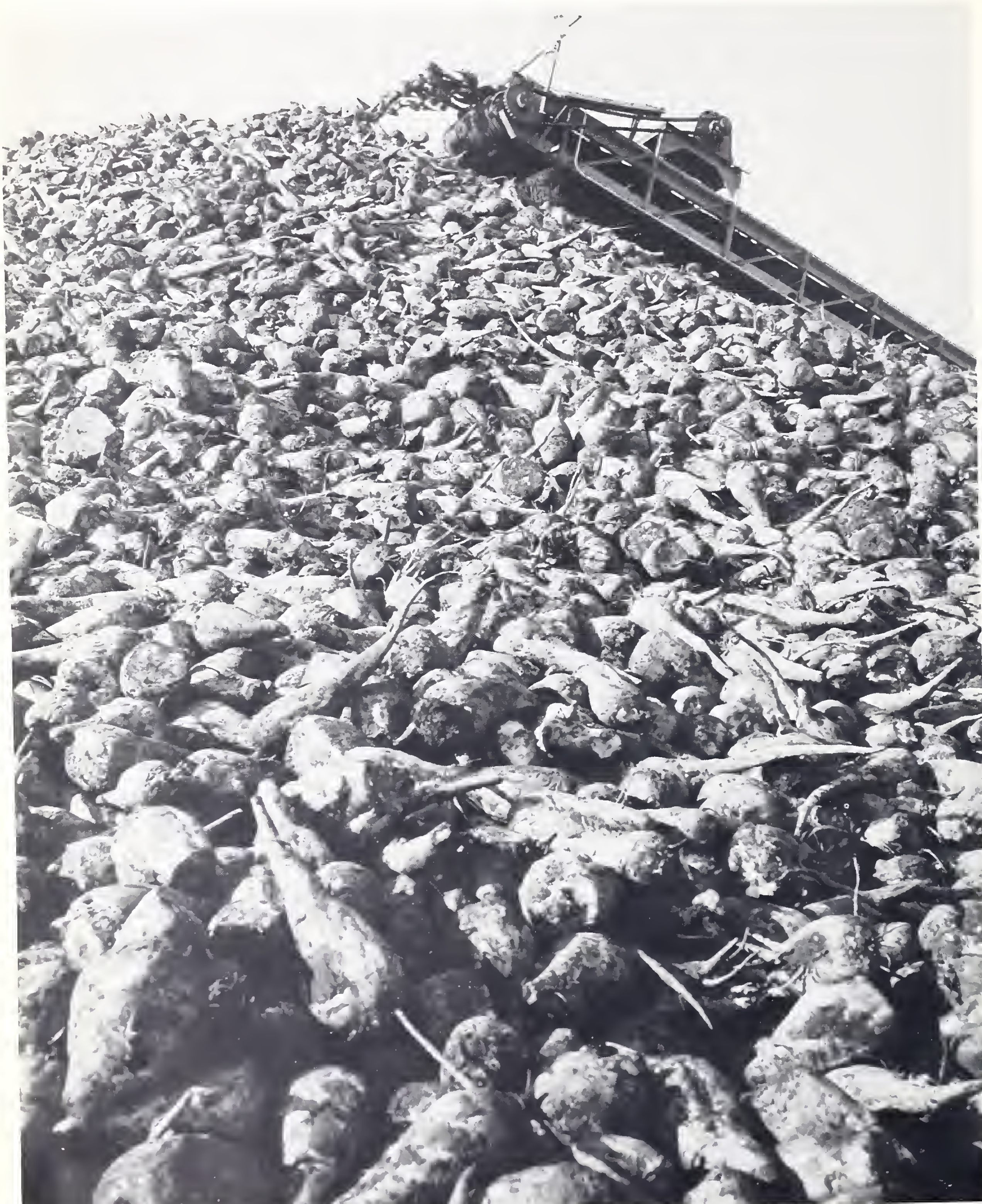


Golfers playing the city's new golf course have an impressive view of the Moorhead sugar refinery. American Crystal also has factories at Crookston and East Grand Forks, Minn., and Drayton, N.D.

Sugar beets are dug within 24 hours after being topped; otherwise the beet's sugar content will begin to deteriorate.

CONTENTS

Sugar beet harvest, once underway, goes on night and day. Trucks empty into machines that pile beets 22 feet high, 180 feet wide and sometimes three city blocks long.



AMERICAN CRYSTAL SUGAR

Its Rebirth as a Cooperative

David Volkin and Henry Bradford[1]

RISE OF TROUBLED WATERS

Though Red River of the North divides Minnesota and North Dakota, it forms the valley that has brought the States' farmers together in a unique cooperative enterprise.

Red River Valley is considered one of the more concentrated sugar beet producing areas in the world. Sugar beets, grown commercially in the valley since 1923, have been one of its more profitable crops.

Historically, farmers had been content with growing the raw product and selling it to others for processing and marketing. However, they had learned the value of working together in negotiating contracts for selling their sugar beets. These joint efforts were carried out through the formation of the Red River Valley Sugar Beet Growers Association in 1943.

Negotiations were with the American Crystal Sugar Company primarily, a marketing company operating in several States. Besides Minnesota and North Dakota, American Crystal had factories in California, Colorado, Iowa, Montana, and Nebraska.

Disturbing to grower association leaders was a decision pattern by American Crystal management to restrict rather than expand its processing operations. Where it had once operated 11 factories, only six remained by 1973. Further, the company had indicated to the growers' association that it had no plans to expand manufacturing in the valley.

What grower association leaders really feared was the possibility that American Crystal would close one or more of its four plants in Minnesota and North Dakota. This concern was supported by observations that factory upkeep was not being maintained for most efficient operations.

Conflict of interests and outlook was deepening. Grower association leaders felt the valley could support increased processing capacity. In fact, plans by other groups were developing for building two factories. Nevertheless, American Crystal management felt the potential return on investment for its shareholders was simply too low to merit expansion.

After watching this trend for several years, grower association leadership was convinced of the need for dramatic action. Steps had to be taken to protect growers' long-term sugar beet production patterns, which had meant so much to their livelihood. More importantly, they recognized that if this source of livelihood were going to be further developed—as they thought it could be—they would have to undertake the task themselves.

Sugar beet growers' decision to act launched them on a 2-year voyage over largely unknown waters, murky with complex financing and interim corporations and troubled with antitrust investigations. It ended with the landmark purchase of American Crystal Sugar Company for $66 million.

Throughout the voyage, the markers and buoys keeping growers on course were these objectives to:

—maintain and expand market outlets for their beets;
—continue operations of all processing plants;
—implement plant improvements to meet environmental and efficiency standards; and
—increase plant capacity if and when necessary.

SETTING THE COURSE

By the fall of 1971, Red River Valley Sugar Beet Growers Association, Inc. (Red River) decided to seriously explore how growers might gain representation on American Crystal's board of directors. Red River learned in December that a block of 100,000 American Crystal shares of

---

[1] *David Volkin is a senior agricultural economist with a specialty in cooperative business organization for Farmer Cooperative Service. Henry Bradford, formerly an FCS senior agricultural economist, retired last year.*

common stock was available. By acquiring such a block, representing 9 percent of common stock outstanding, Red River believed it could exert sufficient voting power to influence American Crystal corporate actions. A resolution at Red River's annual meeting in Moorhead, Minn., that month directed the board to set up a stock purchase program.

Red River planned to sell notes to members to raise the money to purchase the stock. In January 1972, the association listed the notes with the Securities and Exchange Commission. At about the same time, Aldrich Bloomquist, Red River executive secretary, reported the action to Charles W. Briggs, president of American Crystal Sugar, headquartered in Denver. In his letter, Bloomquist suggested an alternative: That American Crystal might entertain an offer by Red River to purchase the company at book value.

Within a few weeks, President Briggs replied that an offer would be considered. The two organizations' boards of directors met March 10, 1972. American Crystal confirmed its interest and requested Red River to develop and present a firm purchase proposal.

Examination of American Crystal books determined book value of outstanding stock to be about $51 million. This was equivalent to $40 a share for outstanding common and $105 a share for outstanding preferred stock. An additional $15.6 million was needed for a long-term debt owed for building the Drayton, N. Dak., factory. Thus, total cost was $66.6 million, later reduced to $65.6 million.

Red River officials were not blessed with unanimous encouragement to proceed. About 4 percent of the growers in the valley objected to the acquisition and merger. However, had this situation not been handled properly, the dissenting group might have gained sufficient support to have perhaps blocked the project. Most vocal dissenters numbered only about 10, but had the following of perhaps 40 others out of the 1,500 membership.

Most dissenters farmed in the area of the Drayton factory in the north end of the valley. This factory, built in 1965, was the newest, had the greatest slicing capacity, and was considered the most efficient of all the valley factories. Some growers believed that most money spent for maintenance and remodeling would be on the other factories. Consequently, they would be subsidizing these expenditures.

Some growers felt the purchase of American Crystal was not a sound investment, that the price was too high, the debt load too heavy, and that a cooperative was not the best solution. Others believed growers simply did not have the capacity to own, operate, and control such a complex and expensive facility as a large sugar processing and refining corporation.

Red River officials and counselors answered the opposition and kept the merger project on target. They fully informed growers of their right to dissent. They kept all growers informed on the purpose of the acquisition and merger, progress being made, and reasons for delays.

Red River's leadership presented and discussed the purchase proposal with members April 10, 1972, in Grand Forks, N. Dak. Proponents and dissenters presented their views and an advisory vote was taken on whether to continue. The vote was 70 percent affirmative.

When a stock purchase program was undertaken as a part of the continuation of the project, the dissenters naturally did not purchase stock and therefore were not eligible to vote subsequently on the proposition. This procedure improved the chances for affirmative action and the ultimate success of the project.

Red River leadership obtained professional assistance at the very outset of the project, as early as March 1972. This expert advice was sought to guide the association through the legal process, to verify the nature and worth of American Crystal assets, to develop financing, and to cope with any unexpected problems. Looking back, Red River's leadership concludes that this expertise was necessary to bring about

Beets may be piled at outlying stations, then transported to the refinery; or trucked directly to the refinery and piled to await processing. Below is the Moorhead plant.

the acquisition properly and that it saved time and expense for the association and its grower-members.

One major concern was the operating condition of plants and what improvements were needed at each factory to improve processing efficiency. A sugar refinery engineering company in West Germany was retained to study seven American Crystal factories, one of which had been closed at the end of the 1972 season. The study concluded that major capital improvements were not immediately required to operate the plants.

Red River attorneys reviewed real property records to determine if the holdings had good titles and could be offered as security for loans. They reviewed loan agreements and corporate records to determine if stock was validly issued. Actuaries reviewed retirement programs to determine whether a substantial unfunded liability existed that would need to be considered.

American Crystal's integrated corporate structure was analyzed so it could be better understood. Its operations were far from simple. Contracts were in force at each factory covering the sale of pulp. Certain company property adjacent to factories was leased to pulp processors. American Crystal engaged in cattle feeding under a limited partnership agreement. It owned various farms in the Rocky Ford, Colo., area, as well as canal and ditch companies that supplied water for irrigation and for processing beets in the Rocky Ford factory. It also held water appropriation permits from Minnesota and North Dakota to determine if there was a firm basis for extracting water from ground and subsurface sources.

Red River attorneys studied these leases, contracts, and arrangements to fully understand the obligations the cooperative would incur. And they wanted to ensure there was a legal basis for the arrangements. In essence, their 100-page report assured Red River directors that American Crystal's affairs were in sufficiently good shape for it to pursue its corporate purposes and business objectives.

The unexpected usually happens—and did.

American Crystal was cited for a probable violation of price controls under the Economic Stabilization Act midway through the purchase negotiations. The citation implied that American Crystal's profit during the first quarter of the then current period was about $87,000 in excess of that allowable under the Price Commission's profit restriction.

At a Price Commission hearing, with Red River's attorney listening, American Crystal's counsel explained that by the end of its fiscal year, profits would not be greater than those during its base period. The Price Commission accepted the explanation and deferred action until year-end profits were determined.

However, because resolution of this problem could have affected the purchase price, a provision was inserted in the purchase agreement and plan of reorganization. It stated that all American Crystal shareholders would bear the burden of a possible price rollback order and that an appropriate amount would be deducted from the purchase price. The precaution proved to be unnecessary. At the end of the fiscal year, American Crystal's profits turned out to be as earlier estimated. Therefore, no refunds or rollbacks in sugar prices were necessary.

Red River attorneys got involved in another issue concerning the settlement of litigation between American Crystal and growers under contract with its Rocky Ford plant.

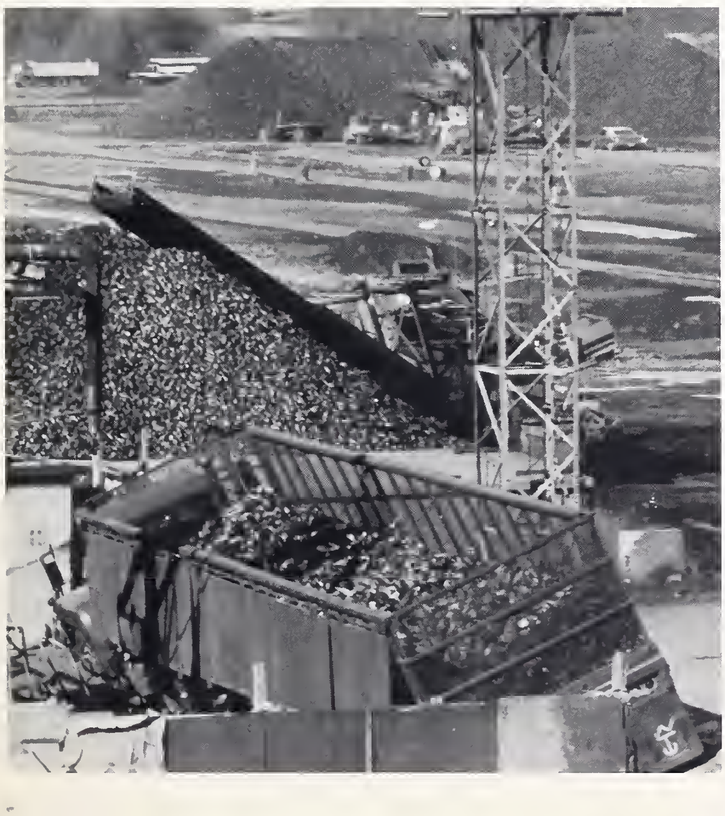
Still another unexpected problem surfaced.

Antitrust Clouds

During negotiations, two matters with antitrust implications occurred.

Red River's attorneys first investigated the antitrust implications of its plan to buy 100,000 shares of American Crystal common stock. They concluded that antitrust laws would not be violated if producers organized a cooperative to acquire American Crystal provided membership

Some beets are transferred from farm truckloads to tractor-trailer loads through unloading-loading equipment. The tractor-trailer is then dumped directly into wet hoppers. The beets then float into the factory itself by water in a flume.



would be open to all producers growing beets for American Crystal prior to acquisition; and that growers would agree to provide equity capital to the cooperative according to a formula based on acreage under contract. Correspondence with the U.S. Department of Justice indicated there was no objection to the proposed transaction.

However, a subpoena had been issued on December 13, 1972, to American Crystal by the San Francisco office of the antitrust division of the Justice Department. It directed American Crystal to produce certain documents before a San Francisco grand jury investigating the marketing practices of American Crystal and other sugar companies.

As a result of this development, Red River growers' representatives tendered a recision offer to all growers who had subscribed stock. Price negotiations were reopened with American Crystal. Red River officials took the position that the legal activity most likely would adversely affect the value of American Crystal and could transfer considerable executive and legal expenses to Red River growers.

The recision offer was made in case a grower, in view of this development, might want to withdraw his subscription. Some did. But the number did not drop stock subscription below the minimum amount needed to proceed.

Dissenters encouraged growers to rescind their subscriptions, indicating they were entitled to receive all the money they had invested. This information was not legally correct because although the rescinders were entitled to the fair value of their shares, which in this case would be essentially the full return of their investment, their money would be returned only after completion of the merger. In some cases, dissenters appeared to use their legal right to dissent not for the purpose for which it was intended—that is, to receive fair cash value of their shares—but rather as an attempt to again block the transaction.

After growers who were considering withdrawing their stock learned the merger probably would go forward, most of them dropped their dissenter rights.

Because of the grand jury subpoena and the resulting price negotiation, American Crystal agreed to reduce the purchase price $1 million. Next, the groups met to negotiate the principal agreement and plan of reorganization. Meanwhile, studies connected with financing were underway.

Bankers Take a Look

Red River asked the St. Paul Bank for Cooperatives for $77.5 million—a long-term loan of $47.5 million for acquisition and $30 million to operate the resulting cooperative. Because that's a lot of money, the St. Paul Bank initiated at its own expense three studies of the project.

One was to verify the book value of American Crystal assets and to appraise the report of the West German firm that Red River had retained. The bank's evaluators had both sugar company and engineering experience.

St. Paul Bank asked two firms to study sugar marketing—for a particular reason.

Three other sugar factories were being proposed or were under construction in North Dakota and Minnesota, two of them in the Red River Valley. St. Paul Bank wanted to know if the additional sugar production from these plants, plus the envisioned expansion by Red River growers, would trigger acreage restrictions and marketing allotments by the U.S. Department of Agriculture. Discussions with USDA officials covered possible sugar programs—acreage restrictions, marketing allotments, quota adjustments—and how these might affect the sugar industry, the acquisition, and proposals to build the three other sugar factories. Production restrictions could seriously affect plant volume and operating results.

St. Paul Bank wanted to know in the other marketing study what would happen to the price of sugar if these new sugar beet companies sold a large part of their sugar in the Chicago-West

As beets float into the plant, trash is removed. They then flow into a beet wheel to be elevated into the beet washer. A beet elevator carries them to the top floor of the factory to the picking table. While moving across the table, beets undergo a hand search for any more trash or foreign material.

market, the major one for Minnesota and North Dakota. The bank was concerned that sugar prices might be adversely affected if demand dropped or if sugar was not marketed in an orderly manner.

Conclusions of these three studies did not deter the St. Paul Bank from subsequently approving credit for the Red River Growers' cooperative.

FINANCING THE VENTURE

At the outset, financing was considered the biggest hurdle. Concern was justifiable. The total requirement was calculated at $86 million, with only 1,400 grower-members from which to raise the money.

The $86 million included $50 million to convert old American Crystal stock into cash, $16 million to retire its long-term debts, and $20 million to retire short-term debts.

Because growers recognized the magnitude of the financing problem, they developed—with the help of their attorneys, accountants, and financial consultants—a complete and detailed organizational and financial plan to carry out the acquisition and merger. This "homework" before approaching the banking institutions resulted in resolving the financing questions more easily than had been anticipated. But one of Red River's financial consultants observed: "Had it not been for the (banking institution's) enthusiasm, willingness to cooperate, and, frankly, its compassion, I do not believe this project could have been consummated."

Red River planned from the beginning to approach the St. Paul Bank for help in developing a financing program. The complete acquisition plan presented at the first meeting called for an organizational transition that required some intricate financial arrangements.

In arriving at the organization plan, legal counsel concluded that for several reasons a stock corporation, rather than a Minnesota cooperative, would be easier to merge with American Crystal. They decided to set up an interim corporation, Crystal Grower's Corporation, and merge it with American Crystal. Assets of this merged corporation would then be acquired by a cooperative organized under Minnesota law. Financing was needed prior to the formation of the cooperative; however, St. Paul Bank could not provide financing until a cooperative was formed. The solution was for First National Bank of St. Paul to arrange financing through a consortium of commercial banks, then have St. Paul Bank for Cooperatives take over the financing obligation after the cooperative was formed.

Financing consisted of two stages: (1) Raising equity capital from growers; and (2) arranging for debt capital.

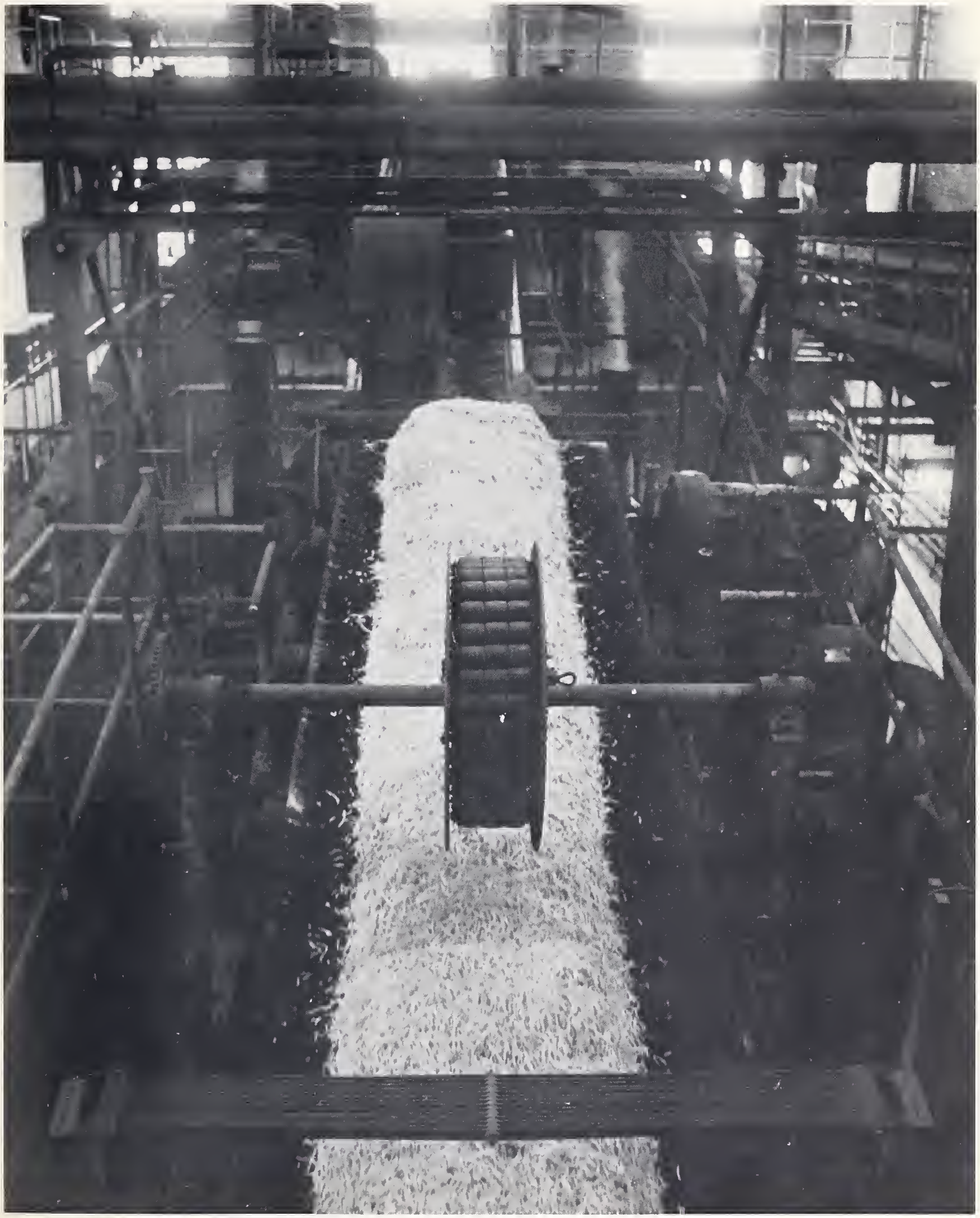
Grower Investments

When St. Paul Bank reviewed the acquisition plan and agreed to provide long-term debt financing after a cooperative was formed, it indicated that minimum equity capital would be $20 million.

Officials of the interim organization, Crystal Grower's Corporation, would handle raising the required equity capital. The plan was for producers to invest in Crystal Grower's an amount equivalent to $100 an acre of beets to be delivered in 1973. Red River growers represented 200,000 acres, so at that rate the $20 million would be raised.

An extensive program paved the way for growers to get loans to purchase capital stock in Crystal Grower's Corporation. Local banks, production credit associations, Federal land bank associations, and other financing institutions were fully informed—before growers applied—of the complete plan of acquisition and kept informed as progress was made. Additionally, meetings were held with bank regulatory authorities, State and national bank examiners, and the Federal Deposit Insurance Corporation to acquaint them with the project. The consequential benefit was that when bank

From the picking table, beets are fed into the slicers. They are cut into long noodle-like pieces resembling shoestring potatoes. These are called cossettes or chips.



examiners investigated loans local banks were making for this purpose, they were familiar with the program and transactions. As a result of this "homework" before producers approached lending institutions, not a single grower was unable to obtain financing.

Repayment of loans varies according to growers' financial circumstances and credit arrangements. In general, the financing institutions are to be paid by checkoffs from payments to producers based on tonnage delivered to their cooperative.

Interim Financing

The loan eligibility problem arose in regard to acquiring the $66 million to purchase American Crystal Sugar Company. The acquiring business would be Crystal Grower's Corporation and one that was not eligible to borrow from the St. Paul Bank. Because the bank had agreed to provide long-term financing, after the acquisition, merger, and cooperative formation, Crystal Grower's was able to arrange interim financing with four commercial banks. Its letter of credit was for $86 million, of which $20 million was grower equity and $66 million a commitment from the four banks. The $66 million included $21 million in funds needed to retire seasonal loans owed by American Crystal under lines of credit with 15 commercial banks.

Final settlement with American Crystal was on February 21, 1973, in Denver. Funds from the interim financing arrangement were used to redeem $50 million worth of American Crystal outstanding common and preferred stock and to retire $15.6 million in loans outstanding to two insurance companies.

Permanent Financing

On May 22, 1973, the growers' cooperative repaid $19.5 million worth of seasonal loans to the commercial bank consortium, leaving an unpaid balance of $46.5 million. St. Paul Bank's original term loan commitment of $47.5 million was reduced to $46.5 million when the price of American Crystal stock was reduced by $1 million (from $51 million to $50 million). Funds from the St. Paul Bank loan of $46.5 million were applied to the unpaid balance with the commercial bank consortium on June 15, 1973.

The St. Paul bank loan is to be repaid over a 15-year period. Among terms are that the growers' cooperative is required to grant St. Paul Bank a first-priority security interest and mortgage on all of the cooperative's assets. Additionally, St. Paul Bank required the cooperative to have 5-year contracts with its growers with sufficient acreage to deliver at least 2.6 million tons annually to the cooperative's four valley plants.

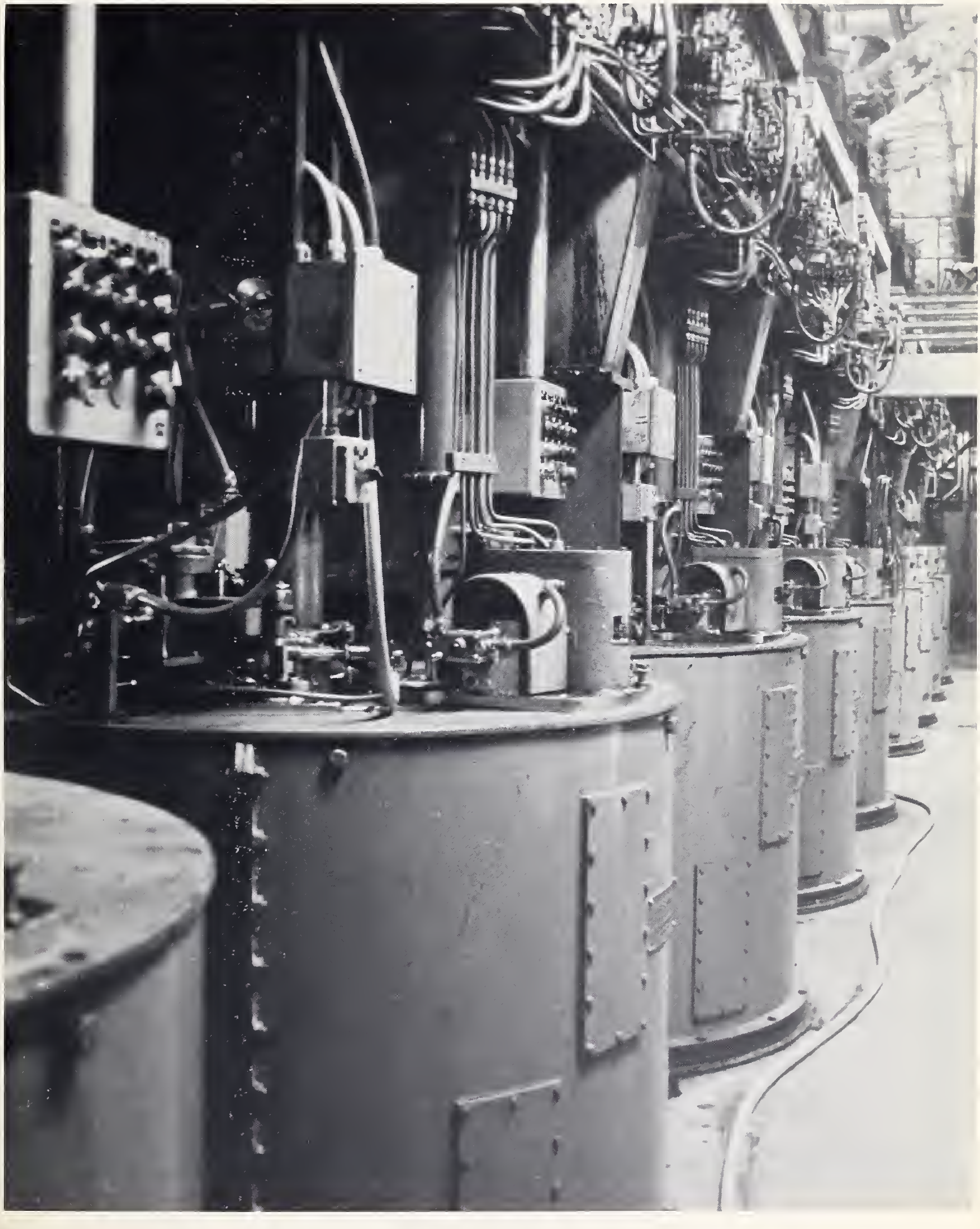
The cooperative for the 1973 crop year contracted with Red River Valley growers for 202,437 acres of sugar beets. The crop produced 3.2 million tons. Another 565,000 tons was processed from contracts in the Clarksburg, Calif., and Rocky Ford, Colo., areas.

Annual principal payments began in November 1973. Money to repay the term loan and otherwise help capitalize the cooperative will come from a per-unit retain of $1 per ton of beets delivered.

Another condition of the financing agreement is that the cooperative must invest on a quarterly basis in Class C stock of St. Paul Bank an amount not more than 25 percent of the interest payable during the preceding quarter. The agreement provides that the cooperative may not without prior consent of the St. Paul Bank retire for cash any of its capital stock, stock credits, patrons' reserves, or evidences of capital equities. Also, it may not without prior consent incur liabilities of more than a stated amount in any one year for the acquisition or construction of fixed assets.

The cooperative has obtained from the St. Paul Bank a commitment to make a $30 million seasonal loan for peak operating capital requirements. Loans will be advanced as needed but limited at any one time to an amount not to

The cossettes are immediately run into the diffuser. Hot water is added to the upper portion of the diffuser and the sugar in the beet cells is extracted by the process called osmosis. The sugar solution leaves the lower end of the diffuser in the form of diffusion juice to be subsequently purified. The exhausted cossettes or pulp leave the upper portion of the diffuser and are transported to the drier area to be pressed and dried and pelleted into livestock feed.



exceed the sum of (a) 80 percent of accounts receivable not more than 60 days old that are covered by liens and (b) 70 percent of finished sugar inventory. These loans, required to be repaid in full annually before August 31, are secured in the same manner as the term loan.

FRAMEWORK FOR ACQUISITION

Acquisition and merger involved four organizations and seven stages.

The organizations were: American Crystal Sugar Company, a New Jersey corporation; Red River Valley Sugar Beet Growers Association, a Minnesota bargaining cooperative; Crystal Grower's Corporation, a Minnesota corporation; and American Crystal Sugar Company, a Minnesota cooperative corporation.

Transitional stages were:

ONE. Red River organized an interim noncooperative corporation, Crystal Grower's Corporation.

TWO. Crystal Grower's sold 1,306 shares of common stock and 200,000 shares of preferred stock to grower-members of Red River. The sale generated $20 million in equity capital.

THREE. Crystal Grower's and American Crystal merged. American Crystal became the surviving firm, with Crystal Grower's disappearing as a corporate entity. In this action, American Crystal technically acquired two groups of stockholders. One group was the 1,306 new stockholders who formerly owned Crystal Grower's. The other group was the 3,000 more or less, old stockholders of American Crystal. And at the instant of merger, American Crystal's assets increased $20 million.

FOUR. This stage was designed to place full voting control of American Crystal in the hands of the new stockholders. This was accomplished by paying $49 million to the old stockholders for all the outstanding common and preferred stock they owned. The $49 million came from the $20 million in equity capital brought over from Crystal Grower's and supplemented by $29 million of the $46 million brought over from the loan by the consortium of commercial banks. The balance of the borrowed money was used to retire American Crystal's long-term debt.

FIVE. American Crystal Sugar Company, a Minnesota agricultural cooperative, was then formed. The membership was the same as the 1,306 stockholders of Crystal Grower's.

SIX. The Minnesota cooperative then acquired the assets and liabilities of the New Jersey firm of the same corporate name—American Crystal Sugar Company. The Minnesota cooperative acquired these assets and liabilities in exchange for its capital stock. This meant the New Jersey firm now had only one type of asset—the capital stock of the Minnesota cooperative. Because the stockholders were the same growers, the capital stock was then distributed to them as stockholders of the cooperative.

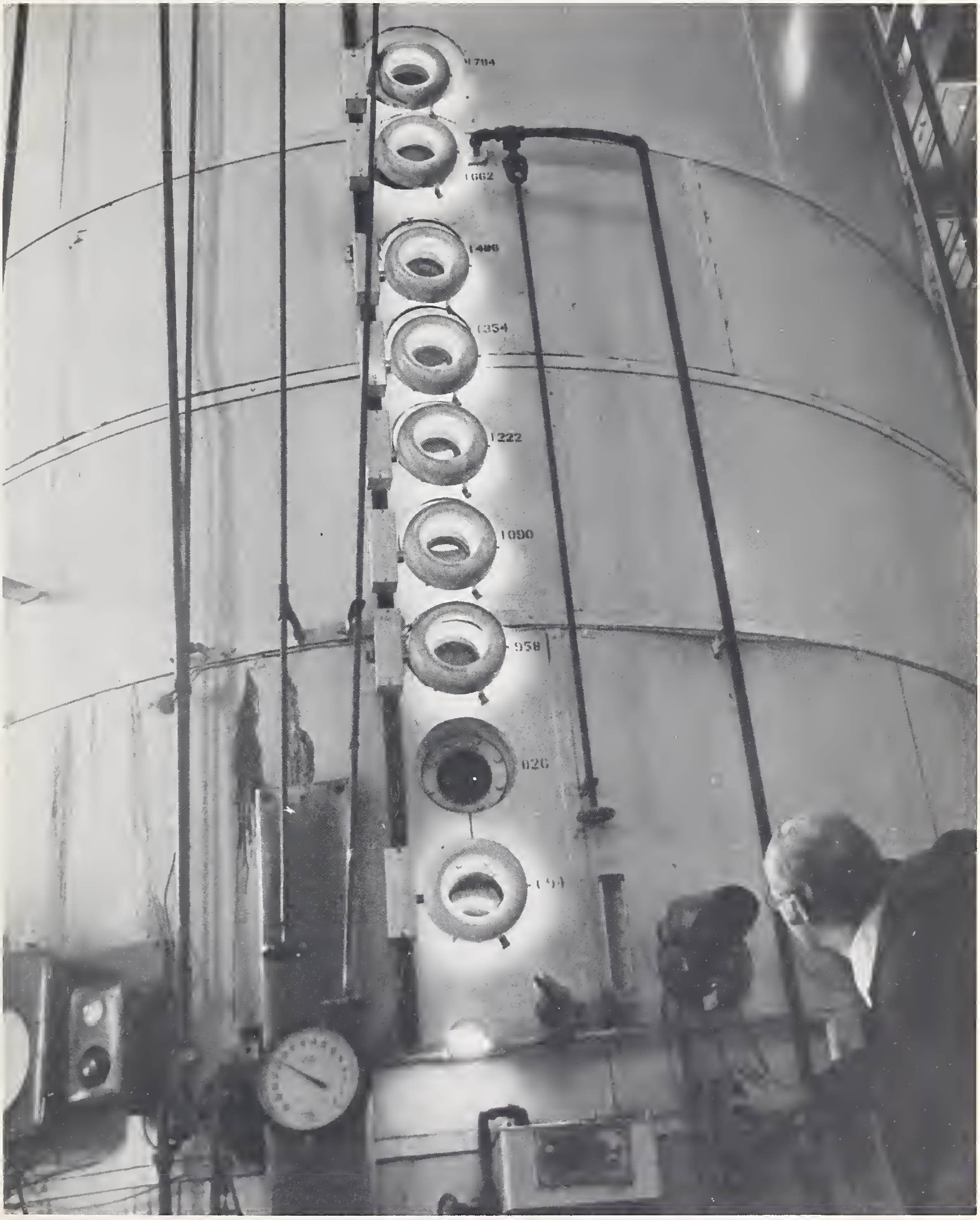
SEVEN. St. Paul Bank assumed from the bank consortium the commitment to provide the long-term loan to the cooperative.

Profiles of Participants

Red River Valley Sugar Beet Growers Association, Inc., organized in 1943 as an agricultural cooperative bargaining association, is headquartered in Fargo, N. Dak. It was an unincorporated association until about 1960 when it organized as a Minnesota nonprofit corporation. In 1970, it reorganized under the Minnesota Agricultural Marketing Cooperative Act.

Membership of about 1,500 growers produced an average of 2.4 million tons of sugar beets annually for the 1969-72 period. Minnesota growers accounted for 70 percent of the volume; North Dakota growers, the remainder. Growers produced sugar beets under contract with American Crystal Sugar Company.

After several stages of purification and filtration the juice is concentrated in the evaporators and then the liquor is boiled in vacuum pans and the sugar crystallized from the liquor. The sugar crystals are grown to a certain size and the mixture of crystals and liquor is then sent to the centrifugals for the separation of the sugar from the liquor. The sugar is dried, screened, bagged and stored following the centrifugal operation.



The significant legal action performed by Red River in the acquisition was formation of Crystal Grower's Corporation. Red River members were the only growers involved in the project. This association remains a legal entity.

American Crystal Sugar Company was incorporated in New Jersey in 1899. Headquartered in Denver, Colo., with about 3,000 stockholders, it engaged in processing sugar beets and marketing refined sugar and by-products. At the time of merger, it had these factories and slicing capacities:

	Tons per day
Clarksburg, Calif.	2,900
Rocky Ford, Colo.	3,400
Moorhead, Minn.	4,600
Crookston, Minn.	3,900
East Grand Forks, Minn.	2,900
Drayton, N. Dak.	5,000

In prior years, it also had factories with combined slicing capacity exceeding 8,000 tons per day at five other locations: Oxnard, Calif.; Mason City, Iowa; Chaska, Minn.; Missoula, Mont.; and Grand Island, Nebr. American Crystal closed these factories prior to the merger. Only the Mason City plant was involved in merger and acquisition investigations. The company operated a portion of the Chaska plant as a distribution center at the time of merger.

American Crystal owned about 6,000 acres of farmland near the Rocky Ford factory. Most acreage was leased to tenants for sugar beets and other crops. The company operated a facility near the Rocky Ford plant for development of improved varieties of beet seed. It leased numerous sites along railroad rights-of-way as sugar beet receiving stations.

American Crystal had about 650 permanent employees—530 wage-hour and 120 salaried. It hired about 2,500 employees during the processing season.

The company sold most of its sugar through independent brokers under its own "Crystal Sugar" brand. Most sugar went to Midwest States, Colorado, and California. Sales offices were in Denver, Minneapolis, and San Mateo, Calif.

American Crystal sold an average of 13 percent of beet sugar and 4 percent of all sugar (both beet and cane) produced in the United States during the 5 calendar years of 1967-71. Net sales and other income ranged from $85 million in fiscal 1968 to $109 million in fiscal 1972.

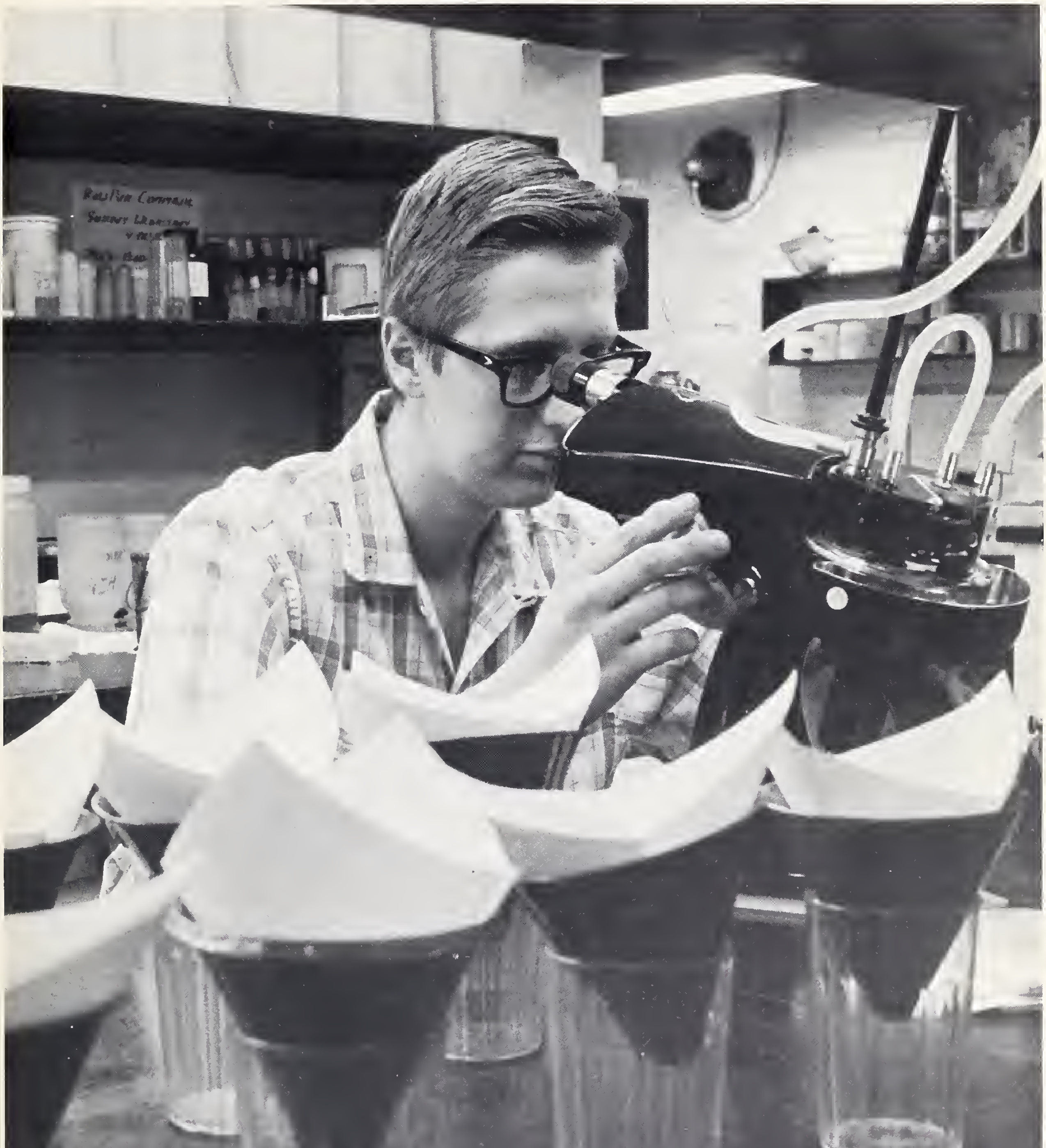
American Crystal sold beet pulp direct and through independent brokers to livestock feeders and feed mixers, and marketed molasses through an independent broker. It sold beet pulp to foreign markets through its wholly owned subsidiary, International Sugar By-Products Corporation. This subsidiary is a domestic international sales corporation (DISC) formed in 1972 to take advantage of certain income tax deferrals afforded such corporations under the Revenue Act of 1971.

Crystal Grower's Corporation was incorporated under the Corporation Act of Minnesota on June 22, 1972. It was formed for three purposes—to serve as the vehicle for: (1) Handling or solving an unusual tax situation; (2) obtaining the producer equity needed for the acquisition and merger; and (3) merging with and into American Crystal (a New Jersey corporation), thereafter to be converted into a Minnesota agricultural cooperative.

After considerable study, Red River's legal counsel advised grower leaders to organize an ordinary business corporation, rather than an agricultural cooperative, under Minnesota statutes because they were convinced that there was no strong statutory authority to merge a New Jersey business corporation into a Minnesota agricultural cooperative. Actually, American Crystal's legal counsel felt more strongly about the need to form an interim corporation than did Red River's. In the end, however, Red River proceeded with the plan.

American Crystal had taken an accelerated

Juices are being filtered here in preparation to checking the sugar percent through a polarimeter.



depreciation for several years on its facilities for income tax reporting purposes, but not for financial reporting purposes. As a result, the cost basis of its depreciable assets for tax purposes was about $15 million less than the cost basis for financial reporting purposes. Negotiations between Red River and American Crystal on the cost of the company pertained to the book value for financial reporting purposes. If Red River had purchased American Crystal's outstanding stock based on book values for financial reporting purposes, American Crystal would have had a capital gain of about $15 million. A tax liability of around $7 million would have been created as an aftermath of recapturing the accelerated depreciation.

To avoid triggering the payment of this deferred tax liability from the standpoint of the proposed new, merged corporation, American Crystal and Crystal Grower's worked together in developing a tax-free reorganization under a procedure acceptable to the Internal Revenue Service. This procedure is stated in the appendix, page 24.

Crystal Grower's Corporation prepared a prospectus, dated December 1, 1972, to offer its stock to eligible purchasers to obtain a minimum of $20 million in producer equity for the acquisition and merger.

The prospectus, describing Crystal Grower's offer, went to the 1,500 sugar beet growers in the Red River Valley under contract in the 1972 crop year with American Crystal. Subscription prices were $10 per share of common and $100 per share of preferred. Each subscriber was required to purchase one share of common stock, permitting him to vote in the corporation, and one share of preferred for each acre of sugar beets grown and delivered during the 1973 crop year.

Growers who did not subscribe to stock would not be eligible for membership in the cooperative. However, those who did not become shareholders could sell sugar beets to the cooperative if it had capacity in excess of that needed to process member-growers' sugar beets.

After the producer equity goal was reached, Crystal Grower's called a special meeting, February 15, 1973, of stockholders to vote on the acquisition and merger plan. Stockholders approved the plan. Merger documents were signed February 21, 1973. As a result of the merger, Crystal Grower's stockholders became stockholders of American Crystal Sugar Company (the New Jersey corporation) and Crystal Grower's ceased to exist.

At the effective time of merger, the old board of directors of American Crystal resigned and was replaced by men who had served as Red River's executive committee.

American Crystal Sugar Company, the New Jersey corporation now owned by Red River stockholders, then faced its most important decision. Stockholders met June 14, 1973, to vote on whether to transform American Crystal into a Minnesota agricultural cooperative. Of 1,310 stockholders authorized to vote, 1,042 voted affirmative and 12 against. Thus, the 79 percent approval exceeded the two-thirds majority required for conversion.

By this action, American Crystal transferred its entire business—all assets and liabilities—to the newly formed Minnesota cooperative of the same name. The transfer was executed in exchange for one share of common stock for every owner holding common stock in American Crystal and one share of preferred stock for each outstanding preferred share of the corporation. Shares held by growers were evidenced by two master certificates, canceled at the same time the shares of the cooperative were distributed.

Soon after the transfer, American Crystal distributed the stock of the cooperative to its stockholders in exchange for their stock in American Crystal. At that time, the New Jersey American Crystal Corporation was dissolved under the laws of New Jersey.

American Crystal Sugar Company, a Minnesota cooperative corporation, was formed

Sugar is being packaged in 10-pound bags. These "dimes"—as they are called—are then sacked six to a bag.

on April 11, 1973, although growers did not decide until June 14 to convert the corporation into a cooperative. The simple vote again triggered a set of complex requirements. Directors of the new cooperative then had to take these actions:

—elect officers
—adopt official stock certificates
—designate the fiscal year
—authorize the proper officers to execute the legal papers required under the agreement and plan of reorganization
—hire a general manager and set his salary
—continue American Crystal's employee fringe benefit programs
—appoint legal counsel
—designate certain banks as depositories and authorize certain association officials to sign checks and drafts and to execute various documents required in transactions with commercial banks and the St. Paul Bank for Cooperatives
—designate a date for monthly board meetings
—approve payment of director's fees

Growers delivering beets to the Rocky Ford and Clarksburg factories are not members of the cooperative. Growers in Kansas and Colorado have formed a cooperative, Colo-Kan Sugar, Inc. Under an agreement with American Crystal, they will bear direct and indirect costs of operating the Rocky Ford factory. In addition, they will pay the cooperative $1 per ton of beets delivered. The cooperative will market the sugar. The growers will have first option to purchase the Rocky Ford factory at any time prior to January 1, 1978, with the purchase effective August 31, 1978. If the growers do not contract for the production of at least 300,000 tons of sugar beets annually, beginning February 1, 1974, the cooperative may terminate the agreement.

At the Clarksburg factory, contracts are negotiated by the California Beet Growers Association. Contracts are uniform throughout the State. The cooperative plans to continue operating under those contracts, counting it as nonmember business.

LOOKING BACK—AND FORWARD

In acquiring American Crystal Sugar Company, Red River Valley sugar beet growers have taken a giant step. They have moved from a production-oriented and arms-length bargaining association stance to a market-oriented, high-investment "brick and mortar" posture of an operating cooperative.

Some issues are yet to be resolved—for example, relationships between the cooperative and growers who have historically supplied the Rocky Ford and Clarksburg factories; and the need for and role of the Red River bargaining association.

Only time and the wholehearted acceptance by members of their patronage-financing commitments and responsibilities will determine if the American Crystal venture will be sound and mutually beneficial. What remains is implementation of grower objectives through day-to-day operations under imaginative, aggressive management within the framework of sound business and cooperative principles.

Undertaking this venture thrust growers into a world foreign to many of them. Their leadership had the foresight to retain competent advisers. Yet one of the attorneys observed that "The experts made a significant contribution, but the American Crystal story is truly a grower story."

After 15 months on the project, the attorney concluded: "If a group of farmers came to me now for my personal help on any project of the size and magnitude of acquiring American Crystal Sugar Company, I would advise them the starting point is to look at their own people to see if there are recognized leaders available who are able to see the potential in what is sought to be accomplished, and to have the dedication to stick with the project until it is accomplished."

This warehouse at Moorhead is just beginning to fill up as the processing season in late September begins. The warehouse capacity is 500,000 hundredweight. Silos at Moorhead can hold an equal amount in bulk.

IT WAS THE RIGHT TIME

Events during the first year of American Crystal Sugar Company's operations as a cooperative suggest growers grasped perhaps a once-in-a-lifetime opportunity.

Sugar prices increased dramatically. The price upturn was a reaction to a supply-demand situation that had been building for several years. World consumption had been exceeding production. Demand was pushed by the rising standard of living in many developing countries. During the same period, low sugar profits had slowed worldwide research and production progress. The result was a generally recognized tightness of supplies. The price impact, translated to American Crystal operations, produced payments to growers 50 percent higher than those for the previous year's crop.

Consequently, the outlook at the cooperative's first annual meeting was a 180-degree turn from the outlook growers had a few years earlier. Expansion optimism supplanted retrenchment uncertainties. Though the fiscal 1974 business figures aren't entirely comparable with those of a year earlier, they nevertheless measure the dimension of the economic and organizational change of American Crystal. Sales volume increased from $121 million to $173 million; margins, from a $221,554 loss to a $19 million net saving.

Though the market situation may not be as good again for a long time, the price rise in 1974 was just right for these growers. The additional income considerably eased the financial burden of their American Crystal purchase and moved ahead the timetable for facility modernization and expansion.

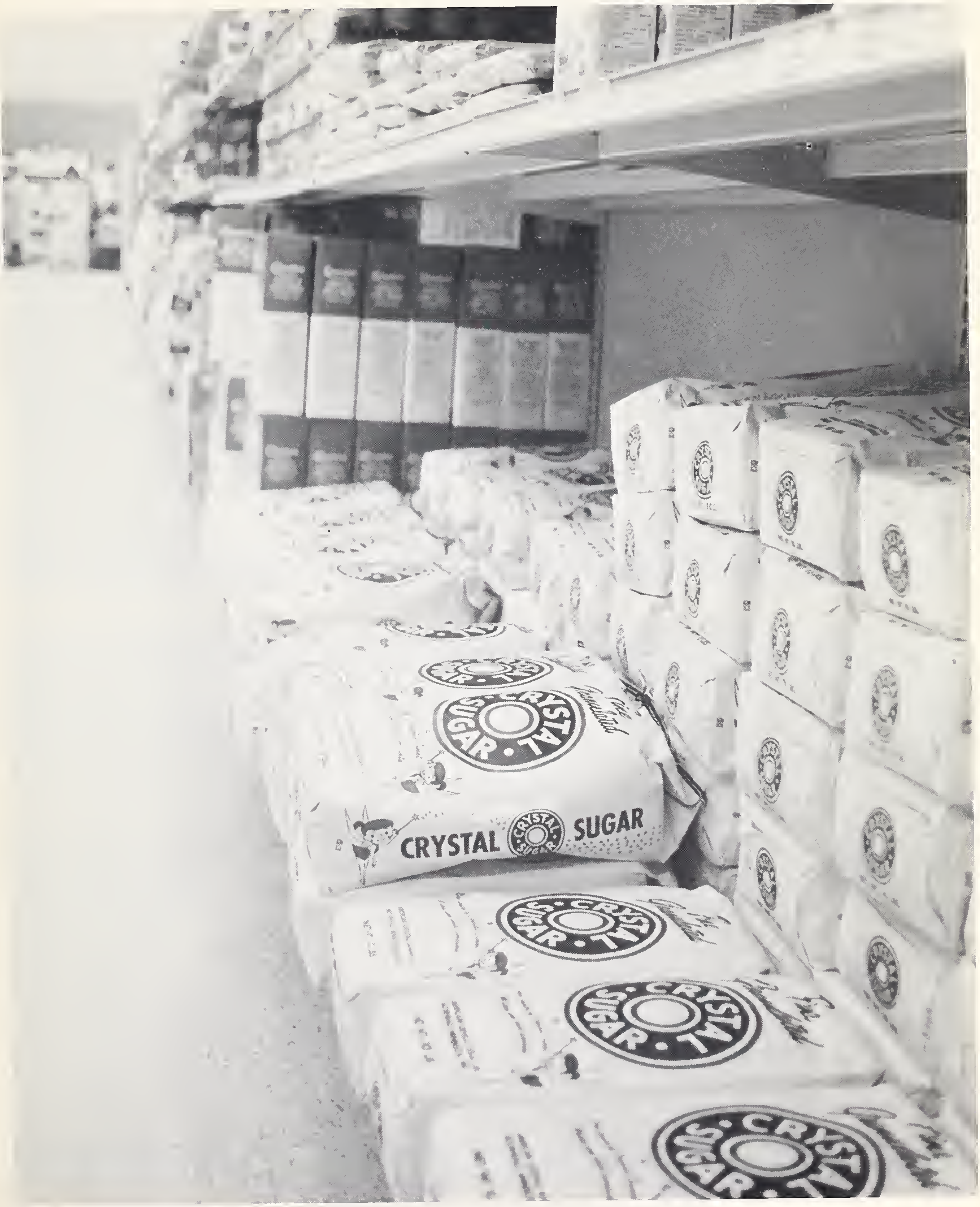
During 1974, American Crystal announced a $61-million program to expand and upgrade facilities. This included building a $40-million processing plant in East Grand Forks, Minn. The new plant combined with improvements to facilities at Moorhead and Crookston, Minn., and Drayton, N.D., will increase the cooperative's slicing capacity 44 percent.

Corporate headquarters were moved from Fargo to a new $1.6 million building of "crystal-like" design in Moorhead.

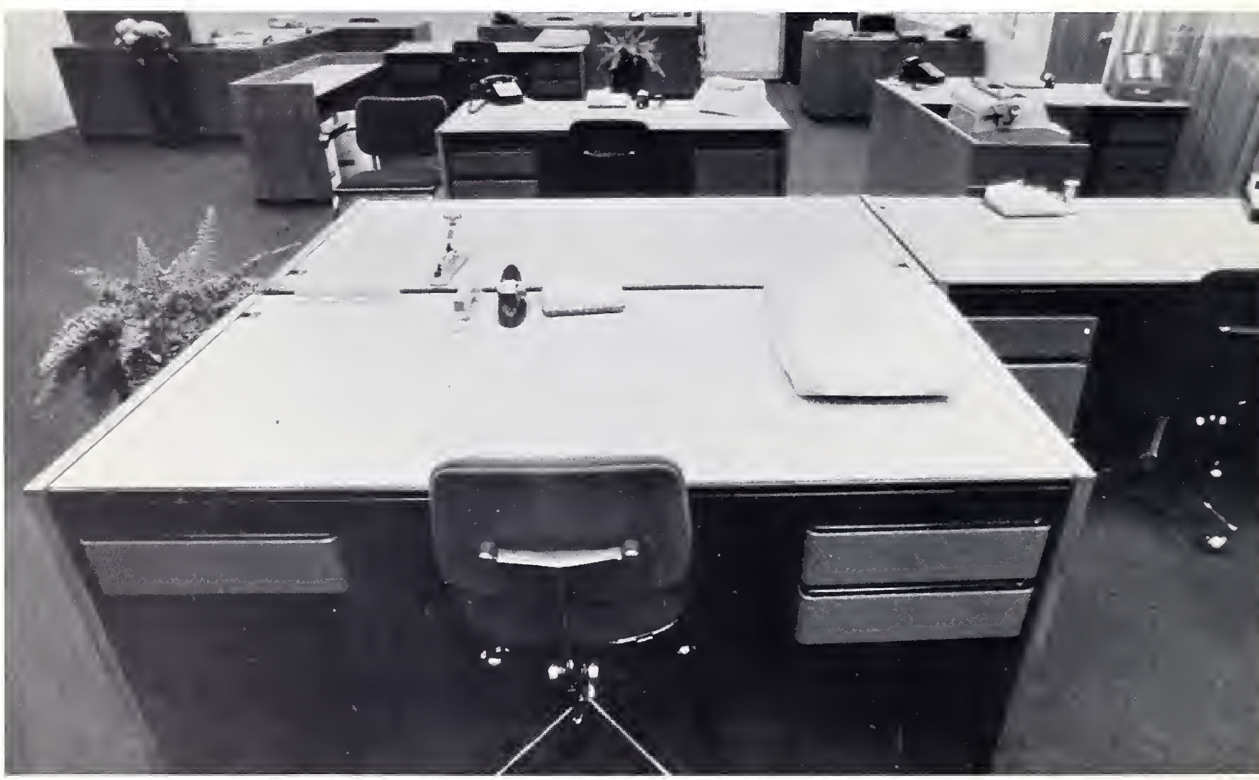
The changed outlook was reflected also in decision of the board of directors to create a research department and build a research center at Moorhead. Research objectives are to develop improved hybrid beet varieties and to increase utilization of the sugar beet through increased sugar extraction and development of profitable by-products from the manufacturing process.

American Crystal has established two management agreements. One is with Colo-Kan Sugar, Inc., a cooperative of growers from Kansas and Colorado that supplies American Crystal's Rocky Ford plant. The other is to manage a processing plant being built at Renville, Minn., by another new organization, Southern Minnesota Beet Sugar Cooperative.

American Crystal Sugar awaits purchase on a Moorhead supermarket shelf.



These interior views of American Crystal's headquarters building are of the board room, above, and the accounting department.



SUMMARY OF PRINCIPAL ACTIVITIES

Investigation and Negotiation

1. Meeting with officials of American Crystal to discuss the possibility of growers in the Red River Valley purchasing the entire business of American Crystal at its book value for financial reporting purposes and converting it to a cooperative.

2. Meeting with officials of the U.S. Department of Agriculture to discuss conditions precedent to possible implementation of acreage restrictions, marketing allotments, and quota adjustments that could affect the sugar beet industry in the light of the proposed acquisition and construction of three other sugar factories.

3. Meeting with Red River members to explain the proposal and obtain an advisory vote.

4. Meeting with American Crystal's negotiating committee to develop a letter of intent executed by Red River and American Crystal.

5. Sponsoring a study to verify the value of American Crystal's assets and for other purposes.

6. Negotiating the agreement and plan of reorganization between Red River and American Crystal.

Financing

1. Meeting with St. Paul Bank for Cooperatives concerning financing for acquisition of American Crystal.

2. Devising method for individual sugar beet growers to obtain financing for their equity investment in Crystal Grower's.

3. Meeting with local bankers regarding security arrangements for equity investments, and with bank regulatory authorities to assure their familiarity with the security arrangements.

4. Meeting with St. Paul Bank to discuss loan eligibility requirements and obtaining its approval to secure interim financing from commercial banks.

5. Arranging for interim financing with commercial banks.

6. Preparing and submitting formal application for loan with St. Paul Bank.

7. Preparing all documentation for interim financing, supported by grower equity contributions, and giving final briefing to all valley bankers and other credit institutions concerning execution of documents and execution of banks' applications for participation in the master letter of credit evidencing grower equity investments.

8. Preparing financial documents, covering both interim lending and permanent financing, and agreements between interim lenders and St. Paul Bank.

Organization and Legal

1. Preparing a report for the executive committee of Red River on legal and accounting investigations of American Crystal.

2. Requesting a ruling from Internal Revenue Service on the tax consequences of the proposed transactions, and designing the structure to avoid recapture of the accelerated depreciation.

3. Forming Crystal Grower's Corporation as vehicle for acquiring American Crystal.

4. Obtaining all abstracts of title covering real estate of American Crystal and submitting these to local counsel for review and opinions, and submitting all opinions to St. Paul Bank and the interim lenders.

5. Cataloging and proofreading all legal descriptions of major real estate holdings.

6. Investigating American Crystal's price stabilization problem.

7. Answering antitrust questions raised by the U.S. Department of Justice.

8. Preparing prospectus concerning sale of Crystal Grower's securities and filing same with the Securities and Exchange Commission and securities commissions of Minnesota and North Dakota.

9. Selling Crystal Grower's securities to qualified sugar beet growers.

10. Preparing proxy material concerning vote by shareholders of Crystal Grower's relative to the merger of Crystal Grower's with and into American Crystal.

11. Obtaining proxy solicitation prior to shareholders' meeting of Crystal Grower's.

12. Holding shareholders' meeting of Crystal Grower's where approval of the merger with American Crystal was obtained.

13. Holding preclosing conferences with counsel for American Crystal.

14. Closing the transactions and completing the merger between Crystal Grower's and American Crystal.

15. Preparing proxy material for shareholders' meeting of Crystal Grower's to vote on proposition of transferring all assets and liabilities from American Crystal, the New Jersey corporation, to American Crystal Sugar Company, the Minnesota cooperative corporation.

Growers' Cooperative

1. Reviewing articles of incorporation and bylaws of various cooperatives, and conducting additional research on possible corporate structure for the proposed cooperative under the laws of Minnesota and North Dakota.

2. Drafting proposed articles of incorporation and bylaws for the cooperative under the laws of Minnesota and clearing these documents with the Minnesota deputy attorney general and Minnesota commissioner of agriculture.

3. Filing the preapproved articles of incorporation with the Minnesota secretary of state and obtaining approval for the cooperative to be qualified as a foreign corporation authorized to conduct business in all foreign jurisdictions where American Crystal Sugar Company, the New Jersey business corporation, was qualified to do business.

4. Preparing a 5-year producer marketing agreement and submitting it, together with the articles and bylaws, to the St. Paul Bank for Cooperatives for its approval. The agreement is a requirement of the bank.

5. Negotiating 5-year contracts with sugar beet growers to help assure that adequate tonnage will be produced and processed through the factories.

6. Arranging for about 20 key personnel of the original American Crystal to be retained by the cooperative and moved from Denver, Colo., to Fargo, N. Dak. The cooperative hired an additional 40 to 50 people to complete the complement necessary for the general office.

7. Making plans to move the headquarters of the cooperative from Fargo to a new general headquarters building in the new downtown area of Moorhead, Minn., in 1974.

DEFERRED TAX LIABILITY

Statement of ruling by Internal Revenue Service as it appears on page 8 of the prospectus of Crystal Grower's Corporation dated January 1, 1974, under the title, "Tax Consequences."

"On October 11, 1972, Crystal Grower's and

American Crystal received a ruling from the Internal Revenue Service on the tax consequences of the proposed merger and related transactions. The ruling was issued in response to a request submitted prior to execution of the definitive merger agreement. Although Crystal Grower's and American Crystal do not believe the merger agreement as executed effects any material change in the proposed transactions as initially described to the Internal Revenue Service, they have requested supplementary rulings, based on the definitive merger agreement, to confirm the October 11, 1972, ruling. The merger will not be consummated unless confirmatory rulings are received, or unless, in the opinion of counsel, one or more of such rulings are unnecessary.

"The October 11, 1972, ruling holds, among other things, that for federal income tax purposes:

"(1) The formation of Crystal Grower's and its merger into American Crystal will be disregarded and will be treated, in effect, as a purchase of shares of the new American Crystal preferred and common stock by the subscribers to shares of Crystal Grower's preferred and common stock. The basis for the shares of the new American Crystal preferred and common stock acquired by a holder of Crystal Grower's stock will be an amount equal to the price paid by him for his shares of Crystal Grower's preferred and common stock.

"(2) No gain or loss will be recognized by American Crystal on the receipt of the cash or other property in exchange for the shares of new American Crystal preferred and common stock.

"(3) The conversion of each of the presently outstanding shares of the preferred and common stock of American Crystal into cash will be treated as a redemption under section 302(b)(3) of the Internal Revenue Code of 1954 ("IRC") provided the holder of such shares does not own, actually or constructively, any shares of the new American Crystal preferred or common stock following the proposed transaction. Any gain or loss realized by a shareholder who does not own, actually or constructively, any of the new American Crystal stock will constitute a capital gain or loss, provided the shares redeemed constitute a capital asset in his hands and the amount of cash received by him represents the fair market value of the shares redeemed.

"(4) The conversion of American Crystal from a New Jersey corporation to a Minnesota cooperative corporation, following the merger of Crystal Grower's into American Crystal, will constitute a reorganization within the meaning of the IRC section 368(a)(1)(F).

"(5) The exchange of the shares of new American Crystal preferred and common stock received in the proposed merger of Crystal Grower's into American Crystal by holders of Crystal Grower's stock into stock of the new cooperative will not result in the realization of any taxable income or loss under IRC section 354. The stock of the new cooperative will have the same basis and holding period for tax purposes as the shares of new American Crystal preferred and common stock for which they were exchanged.

"As noted above, the October 11, 1972, ruling does not consider the tax consequences of the proposed merger to a holder of shares of the presently outstanding American Crystal preferred and common stock if he owns, actually or constructively, any shares of the new American Crystal preferred or common stock after the proposed merger. Such a shareholder may not be entitled to capital gains treatment. Even though a shareholder may not actually own any shares of the new American Crystal stock, under the IRC section 318 he may be considered the constructive owner of shares of such stock actually owned by another person."

☆ U.S. GOVERNMENT PRINTING OFFICE: 1975—0-577-844

Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues News for Farmer Cooperatives. *All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex or national origin."*